



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

St. Johns Unified School District No. 1

As of January 26, 2005



Debra K. Davenport
Auditor General

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STATE OF ARIZONA
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July 22, 2005

Governing Board
St. Johns Unified School District No. 1
P. O. Box 3030
St. Johns, AZ 85936-3030

Members of the Board:

In our September 20, 2004, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2003. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of January 26, 2005. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

In addition, subsequent to our status review, we received and reviewed the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004.

Based on the number and nature of the deficiencies noted in our status review and our review of the 2004 audit reports and compliance questionnaire, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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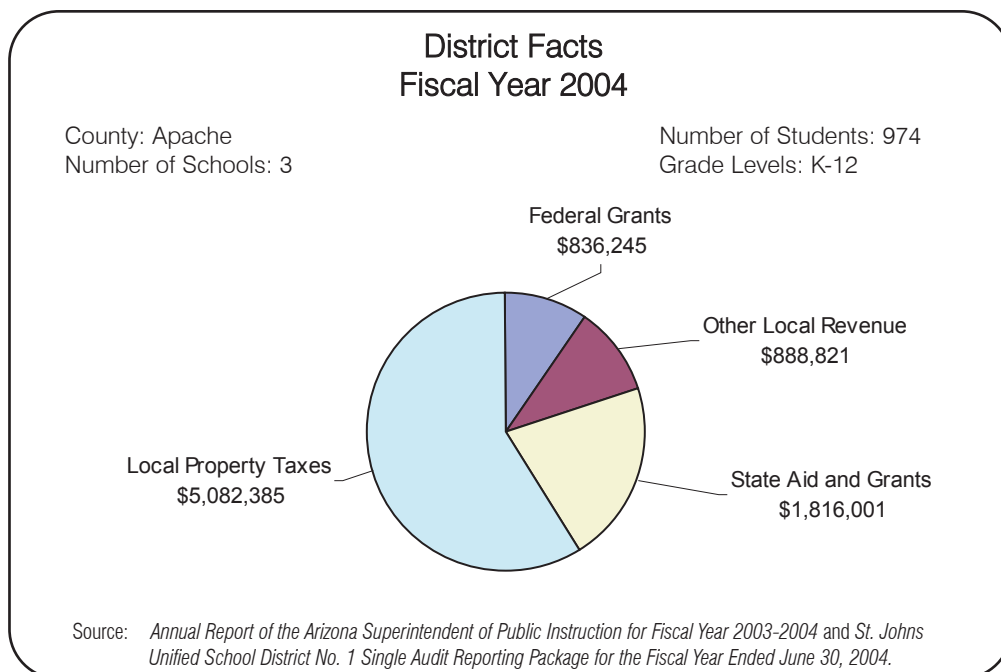
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INTRODUCTION

St. Johns Unified School District No. 1 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$8.6 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review and review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District should strengthen controls over capital assets

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have accurate lists of these assets to ensure that they are properly accounted for. However, the District did not accurately maintain its capital assets and stewardship lists. Specifically, cost amounts recorded on the capital assets list did not always

The District did not effectively account for all of its assets as its capital assets and stewardship lists were incomplete.

agree to supporting cost documentation. In addition, the District did not reconcile the results of its physical inventory of equipment items to the capital assets and stewardship lists.

Also, the District had not performed a physical inventory of its equipment items at the District office. Finally, assets on the capital assets list were not identified by functional use categories to enable the District to properly report depreciation by function in the financial statements, as required by Governmental Accounting Standards Board Statement No. 34.

Recommendations

The following procedures can help the District ensure that its capital assets are adequately controlled and ensure that its capital assets and stewardship lists are accurate and complete:

- Maintain accurate and complete capital assets and stewardship lists of all capital items. Include all required information for each item on the list.
- Retain cost documentation for all items recorded on the capital assets list and verify that the cost for each item recorded on the list agrees to supporting cost documentation.
- Perform a physical inventory of all equipment items at least every 3 years. Assign an employee who is not responsible for the items' custody to reconcile the physical inventory results to the lists, and add items to or remove items from the lists as necessary.
- Reconcile the prior year's capital assets list to the current year's list and make all necessary corrections.
- Maintain information to report depreciation for capital assets by their functional use. Information may be maintained in the same format as the capital assets list or may be included in a separate schedule that is cross-referenced to the capital assets list.

Instructions for documenting capital asset cost information are included on USFR pages VI-E-3 through 5.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or USFR guidelines. For example, the District did not give adequate notice for a request for proposal (RFP) as it did not advertise for proposals or mail the RFP to more than four vendors on its prospective bidders list. In addition, the District did not document its evaluation of the only responding vendor or its determination that the proposal was advantageous to the District. For another purchase, the District did not document its reasons for designating a vendor as sole source. Further, the District did not ensure that purchases made through a purchasing cooperative were bid by the cooperative in accordance with School District Procurement Rules.

The District may not have received the best value for the public monies it spent.

Recommendations

To strengthen controls over competitive purchasing and to comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Advertise for competitive sealed bids or proposals when the District has fewer than five prospective vendors on its bidders list for the needed goods or services. The District may mail invitations for bid (IFBs) or RFPs when there are five or more prospective vendors on its bidders list.
- Award the contract based on criteria set forth in the IFB/RFP. The District should prepare and retain documentation showing the basis for determining the successful bidder. If the District receives only one bid, it should document a complete bid evaluation, including a determination that the price is fair and reasonable; that the contract would benefit the District; and that either other prospective bidders had a reasonable opportunity to respond, or there is not adequate time for resolicitation, before awarding the contract.
- Only award a contract for a material, service, or construction item without competition when the District's Governing Board determines in writing that there is only one vendor who supplies the items or services. Such written determination should be retained with other supporting documents for the purchase. Sole source procurement should be avoided, except when no reasonable alternative vendor exists.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Document the due diligence procedures performed on at least a sample of the purchasing cooperative contracts that the District wishes to use to ensure that the contracts were bid by the cooperative in accordance with the School District Procurement Rules.

The District's controls over expenditures should be improved

The District spends public monies to purchase goods and services. It is essential that the District follows procedures designed to help ensure that its purchases are approved before committing district monies and that its expenditures are properly supported. However, the District did not always prepare purchase orders before ordering goods and services. In addition, the District did not always ensure that sufficient cash was available in cash-controlled funds before making expenditures. Also, travel reimbursements exceeded the maximum rates established by the Arizona Department of Administration (ADOA) or were not supported by documentation.

The District had deficit fund balances in five funds as of December 2004.

Recommendations

To strengthen controls over expenditures, the District should establish and follow the policies and procedures listed below:

- Prepare purchase orders that are approved by an authorized employee prior to ordering goods and services.
- Verify that sufficient cash balances are available in cash-controlled funds before authorizing purchases.
- Verify that reimbursements for employee lodging and subsistence do not exceed ADOA-established maximum amounts.
- Retain supporting documentation for employee travel reimbursements, including itemized lodging receipts and travel claims that indicate the time and place travel begins and ends, odometer readings, and employee name. Also, the employee travel claims should be reviewed and approved by an authorized employee.

USFR Memorandum No. 210 describes current mileage rates, meal allowances, and lodging rates.

The District should ensure the accuracy of its student attendance records

Accurate attendance records are essential to ensure that the District receives its fair share of state aid. However, the District did not maintain adequate documentation to allow the District's auditors to determine if kindergarten attendance or elementary and junior high partial-day attendance were recorded correctly. In addition, absences at the high school were not always reported accurately. Finally, the high school did not have procedures in place to ensure that entry dates were included on students' registration forms if the student was enrolled before his or her first day of attendance.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should record and report attendance in accordance with ADE's *Instructions for Required Reports*, and establish procedures to help ensure that entry dates are recorded on the students' registration forms. Specifically, membership and absences should be reported as follows:

- For kindergarten students with total instruction time between 352 and 704 hours per year, attendance for at least 3/4 of the day should be counted as 1/2-day attendance.
- For students enrolled in first through eighth grades, if attendance is based on half days, the attendance of at least 3/4 of the instructional time scheduled for the day shall be counted as a full day of attendance. Attendance at a minimum of 1/2 but less than 3/4 of the instructional time scheduled for the day equals a 1/2 day of attendance.
- For high school students, daily attendance should be based on the chart provided in ADE's *Instructions for Required Reports*.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

The District's financial information should be accurately budgeted and reported

The District's Governing Board depends on accurate information to fulfill its oversight responsibility and to report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its budget, accounting records, and annual financial report (AFR) are accurate. However, the District did not fully accomplish this objective. Specifically, the District did not properly budget for the Soft Capital Allocation Fund as the adopted budget

The District's budget for the Soft Capital Allocation Fund exceeded statutory limits by \$198,828.

exceeded the soft capital allocation limit. In addition, the three Classroom Site Funds (CSF) were not properly budgeted to ensure that the prior years' unexpended budget balances were available to be spent in the current year. Also, the District's AFR was not properly completed and filed with the County School Superintendent. Finally, revenues were not always recorded properly in the District's accounting records.

Recommendations

The following policies and procedures can help ensure that the District accurately budgets and reports financial information:

- Propose and adopt a budget that is within the authorized limits and maintain copies at the District office.
- Revise the adopted budget on or before December 15 if the District is notified that the adopted budget exceeded the General Budget Limit, Unrestricted Capital Budget Limit, or Soft Capital Allocation Limit by \$1,000 or more.
- Properly calculate the CSF budget limit and carry forward unexpended budget balances to the following year in accordance with the restrictions placed on the original allocation of revenue. To ensure that budget capacity is not lost in future years, the District should budget up to the calculated limit each year.
- Classify and record all transactions in accordance with the USFR Chart of Accounts.
- Prepare and submit the AFR to ADE and the County School Superintendent by October 15. The Governing Board President must complete and sign the certification on the AFR Summary. In addition, amounts presented on the AFR must agree to the District's accounting records and latest revised expenditure budget.

Guidance for the CSF is provided in USFR Memorandum Nos. 194 and 212.

USFR Memorandum No. 208 provides guidance for completion of the AFR.

The District should improve controls over student activities monies

The District holds student activities monies raised through students' efforts for safekeeping. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending these monies. However, proper oversight was not established. Specifically, cash

collection reports were not maintained to reconcile sales to cash collections for student activities events. In addition, the District deposited monies that were not raised by students in the Student Activities Fund bank account. Further, the District did not always ensure that disbursements from the Student Activities Fund bank account were approved by, or on behalf of, the students.

The District lacked procedures to help ensure that students approved disbursements from student activities monies.

Recommendations

To strengthen controls over student activities monies, the District should require student clubs to document sales at student activities events by issuing prenumbered cash receipt forms or tickets; by using a cash register; or by performing counts of items for sale before and after the event. The District should then prepare a cash collection report or activity report to reconcile sales to cash collected. For events where documenting sales is not practical, such as bake sales, the District should document the amount of cash collected. In addition, the District should ensure that the Student Activities Fund bank account includes only monies raised by students' efforts. Finally, the District should ensure that each student club approves its disbursements and documents approval in the student club's meeting minutes.

Detailed procedures for student activities cash receipts are described on USFR pages X-H-5 through 9, and sample forms are available on USFR pages X-H-17 through 22.